



# Financial Officials Peer Exchange

Summary Report

JULY 31 – AUGUST 1, 2017

## SUMMARY OUTLINE

### Finance & Debt Management ..... 3

#### Debt Financing Topics

The group engaged in a brief discussion on debt issuance and management, which illustrated the wide range of responsibility for this area among state DOTs and the diversity in debt portfolios (ranging from highly levered to debt free). A few participants recapped some of the discussion from the Debt Management Peer Exchange sponsored by the BATIC Institute in June 2016. **States with no/ limited debt programs might benefit from their own forum to discuss legislative communications related to debt, GARVEEs as an entry point to the debt markets, and types of public-private partnerships (P3s) relevant to states with minimal congestion/ tolling.**

### Projects & Program Management..... 3

#### Management Systems

Many states have recently implemented or are currently undertaking upgrades to accounting, financial management, project management, and other enterprise and data systems. The group discussed best practices for navigating this complicated process while simultaneously upgrading business practices. There was broad agreement that system upgrades are a painful, costly, and time consuming process, but very necessary. **Everyone agreed it would be helpful to build out a list of systems/providers used for major business systems and circulate to participants to facilitate follow up among peers with common systems.**

#### Achieving and Demonstrating Efficiencies

Legislators and other public officials are increasingly emphasizing efficiency and cost savings as a criterion for evaluating DOTs. The group discussed how to define and communicate operational efficiencies and quantify cost savings. **Most states could benefit from additional analytical tools to reduce the burden on staff of monetizing and reporting savings from initiatives in these areas.**

### Revenue & New Initiatives ..... 5

#### Getting a Revenue Package Passed

States that had recently passed new revenue packages and those who were still trying to do so exchanged common challenges and best practices related to public outreach, legislative outreach, and coalition building. **This topic prompted a very robust discussion, and is an issue unique to state DOTs. It might be useful to create a repository for sample educational and outreach materials including presentations, videos, and webpages to facilitate improved outreach to key groups.....5**

### Other Topics of Special Interest ..... 7

#### Screening Projects and Prioritizing Investments

There was a brief discussion of methodologies for analyzing and prioritizing projects. **Some DOTs expressed an interest in analytical tools to quantify return on investment and assess economic impact for “build it and they will come” type projects.**

#### Funding Policy Issues

Every state had either recently passed a new funding package or was urgently trying to get one passed in order to meet near-term needs. From a broad policy perspective there were a few common themes, including: the urgent need for increased funding; the complications resulting from uncertain funding

and lump sum infusions of money; and the need for secure and dedicated funds not subject to diversion to other uses. **Financial officials are following these issues, even if they are not actively conducting studies, and continued updates and educational offerings on developing policy issues would be valuable.**

**Federal Aid Issues**

The group discussed federal aid management topics including: advance construction, rescissions of contract authority, stewardship agreements, indirect costs and revenue forecasting. **Some of the states with smaller programs that are most dependent on federal aid dollars expressed an interest in a forum for discussing the issues that are unique to their states.**

**Public-Private Partnerships (P3)**

There was a brief discussion about experiences with P3 projects / programs and interest in exploring P3. Several states noted that a difficult political environment for pursuing toll-backed projects is a hurdle. Some in the group mentioned the use of Value for Money (VfM) analyses to inform decisions about pursuing a P3 versus an alternative “public” approach for delivering a project and emphasized the relative value of high-level analyses compared with prescriptive, technical analyses because of the difficulty of quantifying key assumptions.

**Road User Charges (RUC)**

The group also briefly discussed the current status and future potential of direct mileage-based user fees as a sustainable source of highway funding. While this might be an important funding strategy in the long run, it does not address the critical near-term needs described by all of the states.

**Attendees ..... 10**  
**Event Description and Agenda ..... 11**

## FINANCE & DEBT MANAGEMENT

### Debt Financing Topics

The group engaged in a brief discussion on debt issuance and management, which illustrated the wide range of responsibility for this area among state DOTs and the diversity in debt portfolios (ranging from highly leveraged to debt free). A few participants recapped some of the discussion from the Debt Management Peer Exchange sponsored by the BATIC Institute in June 2016. ***States with no/limited debt programs might benefit from their own forum to discuss legislative communications related to debt, GARVEEs as an entry point to the debt markets, and types of P3s relevant to states with minimal congestion/tolling.***

- Some topics raised included:
  - Local financing programs, which allow local governments to bond or cash fund major projects and be reimbursed by the state DOT over time.
  - Use of Design-Build-Finance (DBF), which is design-build (DB) contracting with gap financing provided by the developer for a period of several years, to avoid constraints on state debt issuance or limited debt capacity despite higher financing costs. There was some discussion about the DOTs contractual liability to repay the developer-arranged financing being subject to appropriations risk and typically not being considered a debt obligation (though rating agencies may revisit this treatment if the use of DBF continues to grow).
  - Compliance and reporting procedures across states, comparing practices and concerns where the state treasury issues debt, where the state DOT issues debt, and where the state is new to debt issuance. Often the treasury issues the debt and has prime responsibility but the DOT assists with compliance – for example, by providing information used to track project expenditures and generate arbitrage certificates.
  - States that don't borrow often have struggled to get legislators to understand bond financing as an effective program delivery tool and sometimes have used GARVEEs as a gateway to implement debt financing for important projects/capital programs.

## PROJECTS & PROGRAM MANAGEMENT

### Management Systems

Many states have recently implemented or are currently undertaking upgrades to accounting, financial management, project management, and other enterprise and data systems. The group discussed best practices for navigating this complicated process while simultaneously upgrading business practices. There was broad agreement that system upgrades are a painful, costly, and time consuming process, but very necessary.

***Everyone agreed it would be helpful to build out a list of systems/providers used for major business systems and circulate to participants to facilitate follow up among peers with common systems.***

- If state DOT must be integrated with the state system, get in line first during the upgrade process. Request the modifications required to interface with FHWA's Financial Management Information System (FMIS) and other state DOT systems and get FHWA approval on the system. Don't delay; being the last department brought into the statewide system is "a bad idea and costly."

- If you can secure an exemption and afford to build your own enterprise system, the flexibility of an independent system can be a significant benefit. Make sure that data output is in a form that is useable and allows interface with state systems.
- There is desire for a financial system that pulls together all the diverse aspects of state DOT business and there has been some discussion of whether a group of states could pursue a custom build through AASHTOWare. However, this project would be complicated by the varying degrees to which state DOTs are tied to their states' central accounting systems.

In addition to getting software and data systems right, state DOTs need to update their business practices to match the advanced nature of new systems.

- Financial staff may experience some push back from engineers due to new systems allowing more direct reporting on financial matters within project reporting, forcing duties to be reallocated to engineering staff who were not previously responsible.
  - Facilitating this work by acquiring mobile devices and capability to allow project engineers to do required reporting in the field can help.
  - Auditing their compliance with reporting requirements and having the chief engineer report directly to the audit committee was another strategy for fostering accountability.
  - Other states mentioned issues getting engineers to engage in financial management at a programmatic level versus only at the project level.

### Achieving and Demonstrating Efficiencies

Legislators and other public officials are increasingly emphasizing efficiency and cost savings as a criterion for evaluating state DOTs. The group discussed how to define and communicate operational efficiencies and quantify cost savings. ***Most states could benefit from additional analytical tools to reduce the burden on staff of monetizing and reporting savings from initiatives in these areas.***

What is efficiency?

- When benchmarking against cost estimates that account for inflation, holding spending flat is producing savings.
- Most state DOTs are used to operating in a constrained environment and are very lean. However, antiquated systems are common and can be a major source of lost productivity.
- State DOTs need BOTH 21<sup>st</sup> century systems and 21<sup>st</sup> century business processes. Upgrading management and operating systems can be a challenge due to the unique nature of state DOT responsibilities compared to other state agencies and the need to upgrade business processes in concert with software and data systems.

Examples of efficiency initiatives

- Project-specific (data gathering system) – modifications and cost estimates, payroll, data transfers between contractor and state DOT
- Implementing/increasing electronic transmission of information
- Accounting system upgrades
- Digital signature of documents
- E-construction with data immediately transmitted to database

- Staff reductions (employees versus lane miles)
- Timekeeping management
- Network fleets (GPS on all vehicles)
  - Improve oversight
  - Reduce idling time, fuel usage and generate productivity savings
  - Reallocation of underutilized vehicles
  - Safety (speeding)
  - Protect employees from false complaints
  - Note: utilization of GPS is subject to constraints in some states due to unions. GPS might not be able to be used to monitor personnel, or if it is, the state DOT will have to establish a procedure for disciplinary action with the union.
- Work on eliminating statutory requirements that cost money and are obsolete (publication of bids in newspapers; purchasing laws prohibit trading in used equipment).

#### Communicating about these efforts and associated cost savings

- It is imperative that state DOTs report and publicize the monetary impact of improvements to business practices and systems to citizens, stakeholders, and elected officials. Regular communications on this issue helps mitigate concerns regarding ‘government inefficiency’ that can complicate state DOTs’ ability to attain much needed funding and support.

## REVENUE & NEW INITIATIVES

### Getting a Revenue Package Passed

States that had recently passed new revenue packages and those who were still trying to do so exchanged common challenges and best practices related to public outreach, legislative outreach, and coalition building.

***This topic prompted a very robust discussion, and is an issue unique to state DOTs. It might be useful to create a repository for sample educational and outreach materials including presentations, videos, and webpages to facilitate improved outreach to key groups.***

#### Public Outreach

The public fundamentally misunderstands how they pay for their transportation system and how much they pay. State DOTs must continue to educate, inform, and help the public feel a sense of ownership of their transportation system and continue to explore the most effective ways of doing so. Surveys of voters often indicate a willingness to pay more if: they can feel certain the money will be used for valid transportation improvements; it will have a demonstrable impact; and they understand where it is going. The group discussed a variety of strategies for public outreach.

- Interactive map where people can search for projects and view project status.
- Online calculator to allow citizens to see how much they pay now and what they would pay under a new funding plan.
- Explaining the impact of inflation on purchasing power and why additional funds are needed.
- Convey to voters the value of routine maintenance and the costs associated with deferring it, including the costs of vehicle damage and congestion resulting from poor state of repair.

- Explain funding and costs on a personal basis and make it relatable. “Average motorist’s annual tax payment doesn’t cover the cost of fixing two potholes.”
- If a large percentage of new taxes or fees is paid by out of state drivers, share that with citizens and legislators.

### Legislative Outreach

Many state DOTs experience a lack of trust from legislators and other elected officials who imply that the need for additional transportation funding is a result of inefficient use of existing funds and are reluctant to allocate funds for salaries and institutional capacity. New funds often come with additional accountability and transparency requirements. The group discussed a variety of strategies for legislative outreach.

- Regular independent cost and performance audits can help defend the state DOT against accusations of mismanagement or inefficiency. Be prepared to prove and communicate your efficiency and effectiveness regularly in order to help build trust.
- Legislators demand certainty regarding how new money will be spent. Be prepared to work with elected officials to specify how funding will be allocated among types of projects, towards strategies (focus on freight movement or safety initiatives), or even to specific projects (there can be downsides to identifying specific projects).
- Give legislators options. A menu of funding options and how those levels would impact system preservation and performance can help focus legislators on their goals for the state and the impact of funding decisions on constituents. This approach allows legislators to focus on picking strategies rather than specific projects. Frequently-mentioned funding options include fuel taxes, vehicle taxes, sales taxes, and tolls.
- Be prepared to build in or accept more accountability and transparency provisions. It increases state DOT’s workload, but “it’s worth it to get the money.”
- Be aware of election cycles (including the impact of term limits on key policy makers) and legislative issues (“toll fatigue”). If a public referendum is necessary, time it appropriately with your state’s election cycle.

### Building a Coalition

The group also discussed the need to build and empower a coalition of all key stakeholders – including local governments, industry groups, and private businesses that can lobby elected officials. This requires thinking beyond the typical supporters of infrastructure to build as broad a coalition as possible.

- Provide supportive partners with the information they need to educate and advocate for the funding package. In some cases, the state DOT can establish itself as the neutral party providing objective information during the legislative process, while another entity takes the lead in requesting funding.
- Be prepared to have state DOT staff, a study commission, or other state DOT-supported group tour the state and hold local meetings well in advance. Extensive outreach gives cover for supportive legislators who may face angry constituents later.
- It is very important to have an effective communications strategy for building a coalition.

## OTHER TOPICS OF SPECIAL INTEREST

### Screening Projects and Prioritizing Investments

There was a brief discussion of methodologies for analyzing and prioritizing projects. ***Some state DOTs expressed an interest in analytical tools to quantify return on investment and assess economic impact for “build it and they will come” type projects.***

- A variety of approaches were discussed, including:
  - Metropolitan and rural planning organizations requesting projects for the STIP with priority given to high benefit/cost projects, which may emphasize congestion mitigation.
  - Maintaining a rolling [5-year] capital program with money allocated to specific types of projects with performance targets for each type (pavement conditions, bridge performance, etc.) which impact prioritization. The overall goal is for localities to meet specific performance goals set by the state DOT.
  - Using a long range plan reflecting future goals that can be compared with current asset management plans to outline priority types of projects to meet those goals: safety, bridges, pavement, ITS, etc.
  - Several participants talked about the challenges of utilizing a transparent process with scoring criteria and ensuring it produces an “equitable” result – meaning an allocation of projects that is geographically diverse or addresses needs in key corridors or all legislative districts.
- Some state DOTs suggested that monetizing the *systemic* delay reduction and otherwise gauging the economic impact of projects during the assessment can help make the public and political case for projects.

### Funding Policy Issues

Every state had either recently passed a new funding package or was urgently trying to get one passed in order to meet near-term needs. From a broad policy perspective there were a few common themes, including: the urgent need for increased funding; the complications resulting from uncertain funding and lump sum infusions of money; and the need for secure and dedicated funds not subject to diversion to other uses. ***Financial officials are following these issues, even if they are not actively conducting studies, and continued updates and educational offerings on developing policy issues would be valuable.***

- States expressed a uniform desire to increase funding by whatever means are most politically palatable in their states. All agreed that the instability of the recent funding trends (including federal aid) has complicated the planning and management of projects. It is challenging to develop a fiscally-constrained long-range plan when the relevance of current sources in the future is so unclear.
- States that have received new funding packages or lump sum infusions of state general funds remarked on the difficulty of managing these sudden increases and ramping up projects fast enough to satisfy the expectations of elected officials and the public. One state suggested, if possible, phasing in tax increases in order to facilitate ramp up both inside and outside the state DOT (allowing contractors time to make changes to meet demand).
- States that did not have dedicated state revenues and ‘lockbox’ provisions were actively pursuing obtaining such arrangements.

- States are in various stages of contemplating or exploring policy options for long-term sustainable, resilient funding, including road user charges. However, there are few immediately implementable options. In the intermediate term, states are generally seeking to diversify transportation funding to reduce reliance on motor fuel taxes and federal funds.

### Federal Aid Issues

The group discussed federal aid management topics including: advance construction, rescissions of contract authority, stewardship agreements, indirect costs and revenue forecasting. ***Some of the states with smaller programs that are most dependent on federal aid dollars expressed an interest in a forum for discussing the issues that are unique to their states.***

#### Advance Construction (AC)

There's a great variety in how states utilize advance construction to help manage their federal aid programs. Some state AC balances ranged from less than 1/5 of the annual apportionment to 3 times. A few examples of AC strategies include:

- AC everything over a de minimis value regardless of phase of development. It is possible to carry a higher AC balance if the state has a longer time horizon for cash management thresholds.
  - Potential for disruption in federal Highway Trust Fund (HTF) funding increases risk associated with this strategy. Rescissions impact the ability to convert AC in certain programs.
  - One state used to carry a 10-20% AC balance, but reversed its policy recently. It now obligates all federal funds by the end of June and then proceeds with AC the rest of the federal fiscal year.
- One state noted that it works closely with its division administrator to keep the division informed regarding plans for transferring and converting funds in advance. This strategy reduced questions and issues after the fact.
- One state shared that it manages currently-inactive projects with AC to avoid federal cash flow complications, but this strategy increases staff workload due to the AC process.
- Some states have 25-30% of their AC balances as GARVEE-related. GARVEE-related balances can be reduced using the flexibility available in how early AC is converted for debt service.

#### Other Topics

- Anticipated rescissions of contract authority are a concern, particularly for states where federal funding is a majority of the state's sources of funds. Several states indicated they have transferred money to safety and other protected categories to mitigate the effect of rescissions. The group discussed the need for future flexibility in applying rescissions likely to be mandated by Congress.
- There was discussion about August redistribution and the extent to which states have been or might be in a position to obligate additional authority that FHWA releases each year. It was noted that the amount of August redistribution has jumped significantly in recent years and is expected to be extraordinarily large this year due to the large unobligated balances of the INFRA grant program (formerly FASTLANE) and the TIFIA credit program.
- Several states discussed their use of stewardship agreements with FHWA. Some update their agreements periodically to reflect upcoming activities (toll credits, bridge credits, etc.) and memorialize the decision making process behind new procedures.

- One state indicated that it has stopped billing FHWA for indirect costs in order to reduce administrative burden. This strategy doesn't impact total funding because the state is fully using its federal aid for other project expenses.
- A few states mentioned the value of implementing risk-based project closeouts to address concerns about the current inefficient process.
- Some states brought up recent or ongoing audits (instigated through FIRE reports or by the Office of the Inspector General and suggested that FHWA could improve its guidance and approach on financial reviews.
- Most states are forecasting stable federal revenues in the short term (through the FAST Act) and some are modeling a precipitous drop (of 35%-40%) thereafter for long-range planning purposes, assuming there will be no federal HTF "fix" in the coming years.

### **Public-Private Partnerships (P3)**

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### **Road User Charges (RUC)**

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## ATTENDEES

State	Name	Organization	Position
Alabama	Bill Flowers	Alabama DOT	Chief Financial Officer
Alaska	Mike Vigue	Alaska Department of Transportation & Public Facilities	Chief of Surface Transportation Planning in Statewide Program Development
Arkansas	Kevin Thornton	Arkansas State HTD	Assistant Chief Engineer, Planning
Arkansas	Lorie Tudor	Arkansas State HTD	Deputy Director and Chief Operating Officer
California	Norma Ortega	California DOT	Deputy Director, Finance
Colorado	Nick Farber	Colorado DOT, High Performance Transportation Enterprise	Operations Manager
Connecticut	Robert Card	Connecticut DOT	Chief of Finance and Administration
District of Columbia	Eric Stults	District DOT	Manager, Resource Allocation Division
Georgia	Joshua Waller	Georgia DOT	Director of Policy & Government Affairs
Georgia	Russell McMurry	Georgia DOT	Commissioner
Illinois	Sam Beydoun	Illinois DOT	Bureau Chief, Innovative Project Delivery
Iowa	Shawn Majors	Iowa DOT	Transportation Planner
Louisiana	Barry Keeling	Louisiana DOTD	Undersecretary
Michigan	Myron Frierson	Michigan DOT	Bureau Director
Michigan	Patrick McCarthy	Michigan DOT	Chief Financial Officer
Minnesota	Serge Phillips	Minnesota DOT	Federal Relations Manager
Mississippi	Byron Flood	Mississippi DOT	Budget Division Director
Mississippi	Janet Lee	Mississippi DOT	Special Projects Officer, Office of Administrative Services
Montana	Larry Flynn	Montana DOT	Administration Division Administrator
Montana	Nicole Pallister	Montana DOT	Bureau Chief, Budget & Planning Bureau
North Carolina	Humberto Tasaico	North Carolina DOT	State Program Analysis Engineer
Ohio	Cynthia Jones	Ohio DOT	Research Program Manager
Ohio	Jessica Patterson	FHWA Ohio Division	Financial & Administrative Team Leader
Ohio	Rich Winning	Ohio DOT	Chief Financial Officer
South Carolina	Brian Keys	South Carolina DOT	Deputy Secretary for Finance and Administration
South Dakota	Leah DeMers	South Dakota DOT	Accountant III
Texas	Amy Rideout	North Central Texas Council of Governments	Transportation Planner
Texas	Brian Ragland	Texas DOT	Chief Financial Officer
Washington	Doug Vaughn	Washington State DOT	Chief Financial Officer
West Virginia	Robert Pennington	West Virginia DOT	Director of Program Planning and Research
US DOT	Jodie Misiak	Build America Bureau	Implementation Project Manager

## EVENT DESCRIPTION

July 31 – August 1, 2016  
 Hilton Cincinnati Netherland Plaza  
 Room (TBD)

The *Build America Transportation Investment Center (BATIC) Institute* is hosting a Financial Officials Peer Exchange to provide a forum for transportation agency financial officials to exchange ideas and best practices, and identify common challenges and opportunities in **four major focus areas: Policy, Project Management, Finance and Revenue**. This program will be used to help assess the evolving roles of financial officials and topics of particular interest that might warrant further exploration. The BATIC Institute will supplement these peer exchanges through a Community of Practice that focuses on the concerns, needs and observations of financial officials as key stewards of our nation’s transportation programs. Attendees will participate in a planning call to vet and prioritize the specific discussion topics. Potential discussion topics have been identified below –

FOCUS AREAS	POTENTIAL DISCUSSION TOPICS
<p><b>Finance</b></p> <p>The CFOs will discuss their strategies relating to debt management, the use of bond financing, federal credit programs, state infrastructure banks, etc., and the role the CFOs have in evaluating financing tools / approaches, particularly relating to P3 projects.</p>	<ul style="list-style-type: none"> <li>▪ Debt Management Policies and Procedures</li> <li>▪ Project Financing Options Analysis</li> <li>▪ Policies and procedures for finance function (including succession planning)</li> <li>▪ Stakeholder Communication</li> <li>▪ P3 Financing (including PABs and Private Investment)</li> <li>▪ Federal Financing Programs (BATIC / IFB, TIFIA (loans to lenders program), RRIF, GARVEEs, SIBs, TE-045 Initiatives, Freight/Transit)</li> </ul>
<p><b>Project Management</b></p> <p>We will discuss the fiscal challenges faced by CFOs relating to budgeting, project close-out, certifications, etc., as projects are developed, built and operated, including in the P3 arena – and the role of CFOs in developing and tracking performance measures.</p>	<ul style="list-style-type: none"> <li>▪ Performance Measures and Asset Management</li> <li>▪ P3 Project Screening</li> <li>▪ Project Close-out and Inactive Projects</li> <li>▪ NEPA streamlining</li> <li>▪ Decision-making Framework to Dictate or Prioritize Investment</li> <li>▪ Managing P3 Projects</li> </ul>
<p><b>Revenue</b></p> <p>The discussion will focus on cash management issues: managing cash flow, using advance construction, assessing revenue potential on P3 projects, and considering how new revenue sources such as tolling, mileage based user fees, or value capture may impact cash management.</p>	<ul style="list-style-type: none"> <li>▪ Advanced Construction and Toll Credits</li> <li>▪ Revenue Forecasting</li> <li>▪ Funding/ Revenue Alternatives</li> <li>▪ Mileage Based User Fees</li> <li>▪ State/Local Funding</li> <li>▪ Federal Grants</li> <li>▪ Cash Flow and Cash Management</li> <li>▪ Revenue Potential on P3 Projects</li> <li>▪ TOD / Value Capture</li> <li>▪ Tolling</li> <li>▪ Regional / Local Partnering</li> </ul>
<p><b>Policy</b></p> <p>The initial discussion will focus on several key federal policies (selected beforehand by the participants), the impact they have on CFOs, and how the federal policies have shaped state/local policies and practices.</p>	<ul style="list-style-type: none"> <li>▪ Recent Federal Legislation and Regulations (FAST Act and MAP-21 Implementation)</li> <li>▪ Significant State/Local Policy Issues</li> <li>▪ Freight-Related Policies</li> <li>▪ P3-Related Policies</li> </ul>